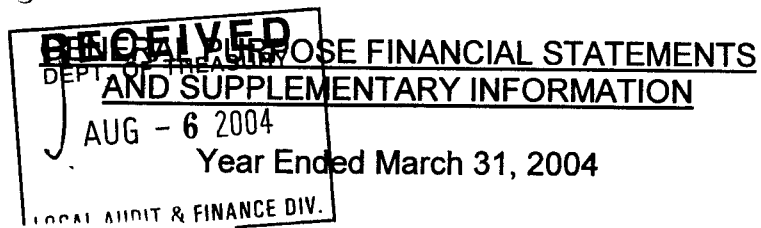


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TOWNSHIP OF FERRIS
Montcalm County, Michigan

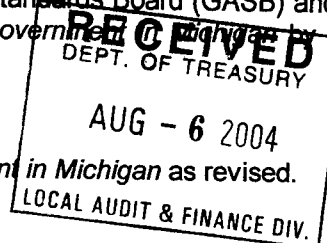


AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of Ferris	County Montcalm
Audit Date March 31, 2004	Opinion Date June 29, 2004	Date Accountant Report Submitted to State: June 29, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.



We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☒ yes ☐ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686	City Bay City	State MI	Zip 48707
Accountant Signature Campbell, Kusterer & Co., P.C.			

TOWNSHIP OF FERRIS
Montcalm County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

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INDEPENDENT AUDITOR'S REPORT

June 29, 2004

To the Township Board
Township of Ferris
Montcalm County, Michigan

We have audited the accompanying general purpose financial statements of the Township of Ferris, Montcalm County, Michigan, as of March 31, 2004, and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the Township of Ferris' management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Township of Ferris, Montcalm County, Michigan, as of March 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Township of Ferris, Montcalm County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF FERRIS
Montcalm County, Michigan

COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS

March 31, 2004

EXHIBIT A

	<u>Governmental Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Account Group General Fixed Assets</u>	<u>Total (Memorandum Only)</u>
<u>Assets</u>	<u>General</u>	<u>Agency</u>		
Cash in bank	205 254 70	202 37	-	205 457 07
Taxes receivable	6 427 78	-	-	6 427 78
Due from other funds	202 37	-	-	202 37
Land	-	-	5 800 00	5 800 00
Buildings	-	-	19 225 00	19 225 00
Equipment	-	-	31 106 49	31 106 49
Total Assets	<u>211 884 85</u>	<u>202 37</u>	<u>56 131 49</u>	<u>268 218 71</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Due to other funds	-	202 37	-	202 37
Total liabilities	<u>-</u>	<u>202 37</u>	<u>-</u>	<u>202 37</u>
Fund equity:				
Investment in general fixed assets	-	-	56 131 49	56 131 49
Fund balances:				
Unreserved:				
Undesignated	211 884 85	-	-	211 884 85
Total fund equity	<u>211 884 85</u>	<u>-</u>	<u>56 131 49</u>	<u>268 016 34</u>
Total Liabilities and Fund Equity	<u>211 884 85</u>	<u>202 37</u>	<u>56 131 49</u>	<u>268 218 71</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF FERRIS
Montcalm County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES

Year Ended March 31, 2004

EXHIBIT B
Page 1

Total
(Memorandum
Only)
Governmental
Fund Type
General

Revenues:

Property taxes	39 846 43
State revenue sharing	103 907 50
Charges for services:	
Cemetery	1 500 00
Tax collection fees	6 426 32
Interest	681 85
Miscellaneous	<u>175 00</u>

Total revenues

152 537 10

Expenditures:

Legislative:

Township Board	8 455 30
----------------	----------

General government:

Supervisor	9 016 50
Elections	319 09
Assessor	9 000 00
Clerk	10 657 97
Board of Review	1 035 00
Treasurer	9 965 14
Building and grounds	3 662 95
Cemetery	11 868 46

Public safety:

Fire protection	20 000 00
-----------------	-----------

Public works:

Drains	6 088 62
Highways and streets	56 445 20

Other:

Payroll taxes	3 097 38
Capital outlay	<u>1 573 00</u>

Total expenditures

151 184 61

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF FERRIS
Montcalm County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES

Year Ended March 31, 2004

EXHIBIT B
Page 2

	Total (Memorandum Only) <u>Governmental Fund Type General</u>
Excess of revenues over expenditures	1 352 49
Fund balance, April 1	<u>210 532 36</u>
Fund Balance, March 31	<u><u>211 884 85</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF FERRIS
Montcalm County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND

Year Ended March 31, 2004

EXHIBIT C
Page 1

	<u>General Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Property taxes	32 000 00	39 846 43	7 846 43
State revenue sharing	110 000 00	103 907 50	(6 092 50)
Charges for services:			
Cemetery	500 00	1 500 00	1 000 00
Tax collection fees	5 000 00	6 426 32	1 426 32
Interest	1 000 00	681 85	(318 15)
Miscellaneous	<u>100 00</u>	<u>175 00</u>	<u>75 00</u>
Total revenues	<u>148 600 00</u>	<u>152 537 10</u>	<u>3 937 10</u>
Expenditures:			
Legislative:			
Township Board	14 200 00	8 455 30	(5 744 70)
General government:			
Supervisor	9 720 00	9 016 50	(703 50)
Elections	3 050 00	319 09	(2 730 91)
Assessor	9 000 00	9 000 00	-
Clerk	13 100 00	10 657 97	(2 442 03)
Board of Review	1 700 00	1 035 00	(665 00)
Treasurer	9 725 00	9 965 14	240 14
Building and grounds	5 400 00	3 662 95	(1 737 05)
Cemetery	14 500 00	11 868 46	(2 631 54)
Unallocated			
Public safety:			
Fire protection	20 000 00	20 000 00	-
Public works:			
Drains	6 000 00	6 088 62	88 62
Highways and streets	62 000 00	56 445 20	(5 554 80)
Other:			
Payroll taxes	3 200 00	3 097 38	(102 62)
Capital outlay	<u>7 500 00</u>	<u>1 573 00</u>	<u>(5 927 00)</u>
Total expenditures	<u>179 095 00</u>	<u>151 184 61</u>	<u>(27 910 39)</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF FERRIS
Montcalm County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND
Year Ended March 31, 2004

EXHIBIT C
Page 2

	<u>General Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Excess (deficiency) of revenues over expenditures	(30 495 00)	1 352 49	31 847 49
Fund balance, April 1	<u>30 495 00</u>	<u>210 532 36</u>	<u>180 037 36</u>
Fund Balance, March 31	<u>-</u>	<u>211 884 85</u>	<u>211 884 85</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF FERRIS
Montcalm County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2004

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Township of Ferris, Montcalm County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14 "The Financial Reporting Entity," the general purpose financial statements of the Township contain all the Township funds and account groups that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Ferris. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Basis of Presentation

The financial activities of the local unit are recorded in separate funds and account groups, categorized and described as follows:

Governmental Fund

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Account Group

General Fixed Assets Account Group

This account group presents the fixed assets of the local unit utilized in its general operations.

TOWNSHIP OF FERRIS
Montcalm County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2004

Note 1 - Summary of Significant Accounting Policies (continued)

Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present revenues and other financing sources and, expenditures and other financial uses in net current assets.

The modified accrual basis of accounting is followed by the governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual which is both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on long-term debt, are recorded when the related fund liability is incurred, if measurable. Principal and interest on general long-term debt is recognized when due.

Revenues from local sources consist primarily of property taxes. Property taxes and revenues received from the State are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Township 2003 tax roll millage rate was 1.7263 mills, and the taxable value was \$22,618,687.00.

Fixed Assets

Purchases of fixed assets for all funds are recorded as expenditures in their respective funds at the time of purchase. They are also recorded at cost in the General Fixed Assets Group of Accounts as required by generally accepted accounting principles.

TOWNSHIP OF FERRIS
Montcalm County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2004

Note 1 - Summary of Significant Accounting Policies (continued)

Investments

Investments are stated at market.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Compensated Absences (Vacation and Sick Leave)

Township employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.

TOWNSHIP OF FERRIS
Montcalm County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2004

Note 1 - Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (continued)

7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Postemployment Benefits

The Township provides no postemployment benefits to past employees.

Note 2 - Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated one bank for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

TOWNSHIP OF FERRIS
Montcalm County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2004

Note 2 – Deposits and Investments (continued)

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>205 457 07</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	174 701 42
Uninsured and Uncollateralized	<u>87 890 81</u>
Total Deposits	<u>262 592 23</u>

The Township of Ferris did not have any investments as of March 31, 2004.

Note 3 - Changes in General Fixed Assets

A summary of changes in general fixed assets follows:

	<u>Balance 4/1/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/04</u>
Land	5 800 00	-	-	5 800 00
Buildings	19 225 00	-	-	19 225 00
Equipment	<u>29 533 49</u>	<u>1 573 00</u>	-	<u>31 106 49</u>
Totals	<u>54 558 49</u>	<u>1 573 00</u>	<u>-</u>	<u>56 131 49</u>

Note 4 - Interfund Receivables and Payables

As of March 31, 2004, the amounts of interfund receivable and payables were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>202 37</u>	Current Tax Collection	<u>202 37</u>

TOWNSHIP OF FERRIS
Montcalm County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2004

Note 5 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 6 – Pension Plan

The Township does not have a pension plan.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts, and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

The Township of Ferris does not issue building permits. Building permits are issued by the County of Montcalm.

Note 9 – Budget Variances

During the fiscal year ended March 31, 2004, Township expenditures exceeded the budgeted amounts in an activity as follows:

	<u>Total Budget</u>	<u>Total Expenditures</u>	<u>Excess Expenditures</u>
General Fund:			
Activity:			
Drains	6 000 00	6 088 62	88 62

Note 10 - Total Columns on Combined Statements--Overview

The total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, because interfund eliminations have not been made in the aggregation of this data.

TOWNSHIP OF FERRIS
Montcalm County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year Ended March 31, 2004

EXHIBIT D
Page 1

Township Board:	
Wages	3 500 00
Equalization	1 846 65
Dues	586 87
Printing and publishing	90 00
Legal	1 891 11
Miscellaneous	540 67
	<u>8 455 30</u>
Supervisor:	
Salary	7 000 00
Miscellaneous	2 016 50
	<u>9 016 50</u>
Elections:	
Supplies	43 85
Miscellaneous	275 24
	<u>319 09</u>
Assessor:	
Wages	9 000 00
	<u>9 000 00</u>
Clerk:	
Salary	6 000 00
Supplies	4 446 17
Miscellaneous	211 80
	<u>10 657 97</u>
Board of Review:	
Wages	720 00
Printing and publishing	315 00
	<u>1 035 00</u>
Treasurer:	
Salary	8 014 00
Supplies	1 152 00
Miscellaneous	799 14
	<u>9 965 14</u>
Building and grounds:	
Insurance	2 944 00
Utilities	507 00
Miscellaneous	211 95
	<u>3 662 95</u>

TOWNSHIP OF FERRIS
Montcalm County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year Ended March 31, 2004

EXHIBIT D
Page 2

Cemetery:	
Wages	9 620 00
Supplies	792 46
Repairs and maintenance	600 00
Utilities	238 00
Miscellaneous	618 00
	<u>11 868 46</u>
Fire protection:	
Contracted services	<u>20 000 00</u>
Highways and streets:	
Repairs and maintenance	<u>56 445 20</u>
Drains	<u>6 088 62</u>
Payroll taxes	<u>3 097 38</u>
Capital outlay	<u>1 573 00</u>
Total Expenditures	<u>151 184 61</u>

TOWNSHIP OF FERRIS
Montcalm County, Michigan

CURRENT TAX COLLECTION
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended March 31, 2004

EXHIBIT E

	<u>Balance</u> <u>4/1/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/04</u>
<u>Assets</u>				
Cash in bank	163 40	570 763 50	570 724 53	202 37
Total Assets	<u>163 40</u>	<u>570 763 50</u>	<u>570 724 53</u>	<u>202 37</u>
<u>Liabilities</u>				
Due to other funds	163 40	39 851 86	39 812 89	202 37
Due to others	-	530 911 64	530 911 64	-
Total Liabilities	<u>163 40</u>	<u>570 763 50</u>	<u>570 724 53</u>	<u>202 37</u>

TOWNSHIP OF FERRIS
Montcalm County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Year Ended March 31, 2004

EXHIBIT F

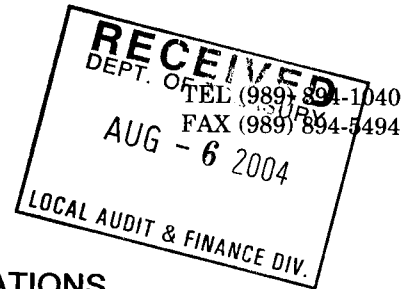
Cash on hand and in bank – beginning of year	<u>163 40</u>
Cash receipts:	
Property tax	565 150 84
Property tax administration fee	<u>5 612 66</u>
Total cash receipts	<u>570 763 50</u>
Total beginning balance and cash receipts	<u>570 926 90</u>
Cash disbursements:	
Township General Fund	39 812 89
Montcalm County	224 774 81
Vestaburg Community Schools	118 471 92
Central Montcalm Public Schools	21 378 01
Alma Public Schools	1 053 99
Carson City – Crystal Area Schools	35 609 57
Montcalm Intermediate School District	74 338 33
Gratiot Intermediate School District	1 385 86
Montcalm Community College	52 586 36
Refunds	<u>1 312 79</u>
Total cash disbursements	<u>570 724 53</u>
Cash on Hand and in Bank – End of Year	<u>202 37</u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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KENNETH P. KUSTERER, CPA

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BAY CITY, MICHIGAN 48707



AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

June 29, 2004

To the Township Board
Township of Ferris
Montcalm County, Michigan

We have audited the financial statements of the Township of Ferris, for the year ended March 31, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Ferris in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

To the Township Board
Township of Ferris
Montcalm County, Michigan

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

To the Township Board
Township of Ferris
Montcalm County, Michigan

GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which is to be implemented over the next few years. The implementation date of this pronouncement for the Township of Ferris will begin with the year ended March 31, 2004, and will need to be implemented fully by March 31, 2005. The daily operations and recording transactions should not change significantly, however, the Township will be required to maintain additional records for the year end adjustments to the final presentation format.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

INVESTMENT POLICY

The Township Board did not adopt an investment policy which is required by State law. We recommend that an investment policy be adopted as soon as possible.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2004.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,
Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants